



CIO Office

CIO Insights

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# From the Strike on Iran to Energy to Inflation

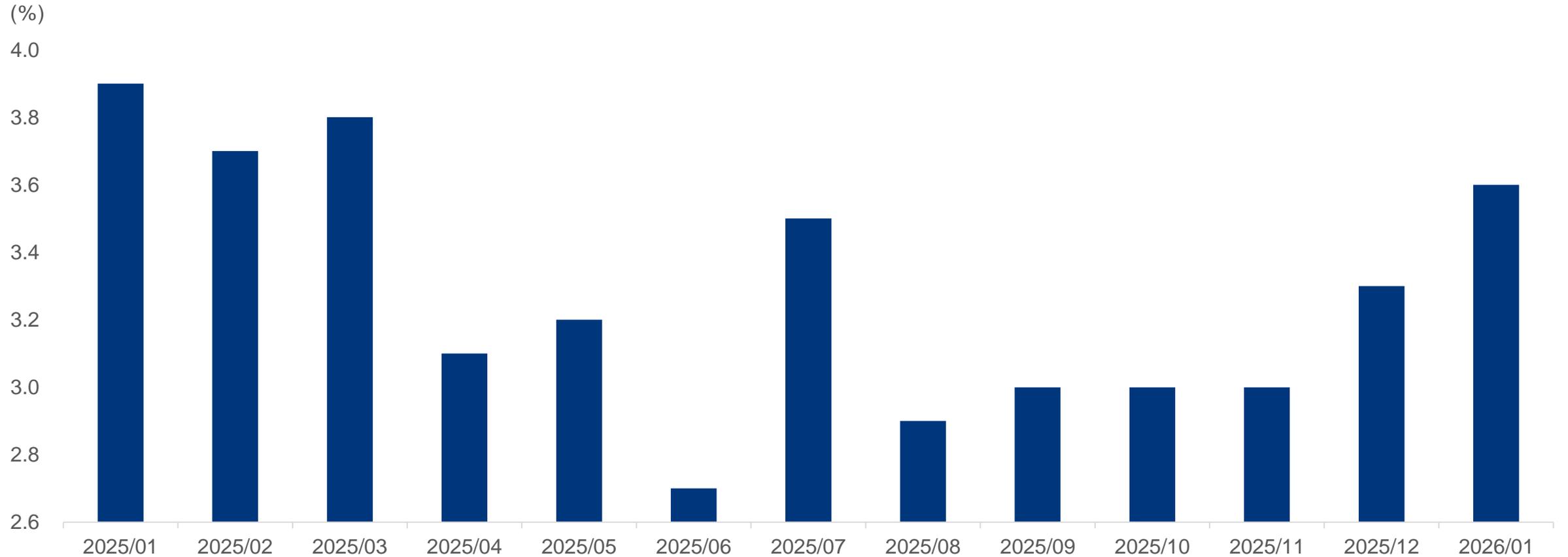
The Implication to the US Monetary Policy From the War in Iran

6 March 2026

# The US Jan Producer Price Index Surprised on the Upside

## That Was After a Softer Than Expected CPI in Jan

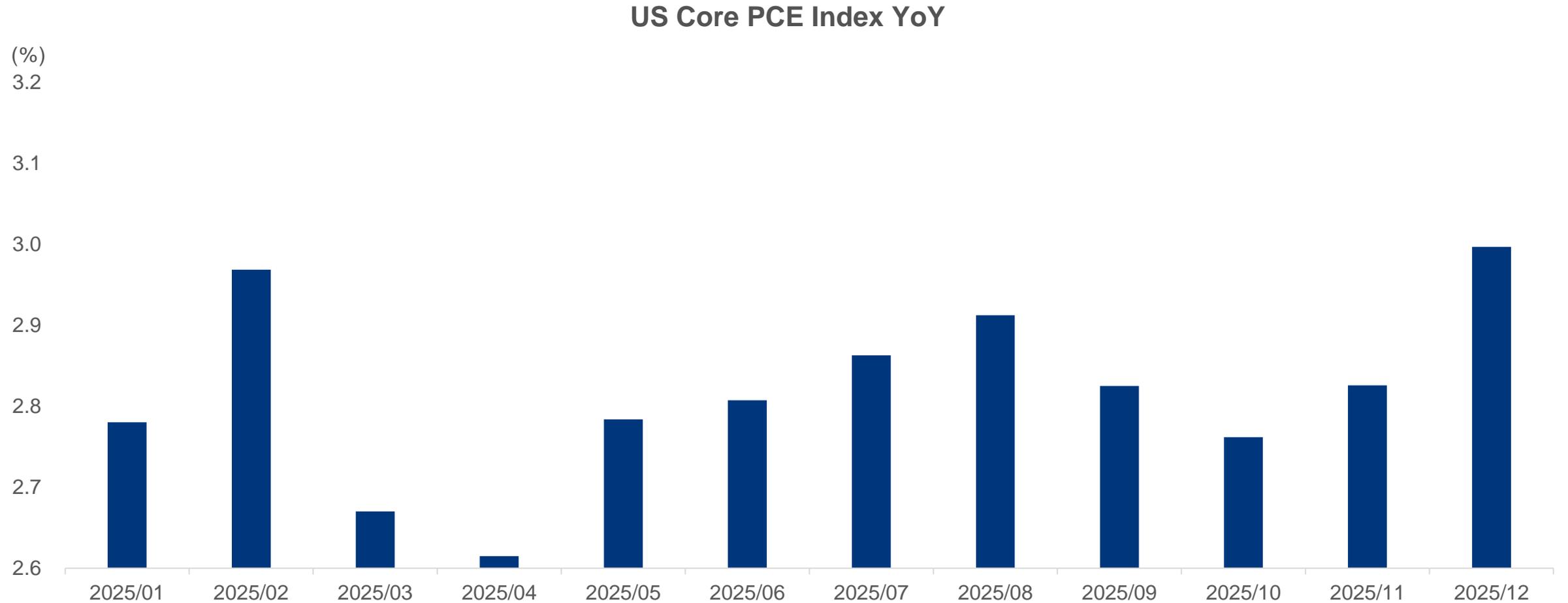
US Core PPI Index YoY



Source: Bloomberg, KGI

# Core PCE Price YoY Touching 3% High Mark

It Strips Out Food and Energy Prices - A Clearer View of Inflation Trends in Consumer Spending

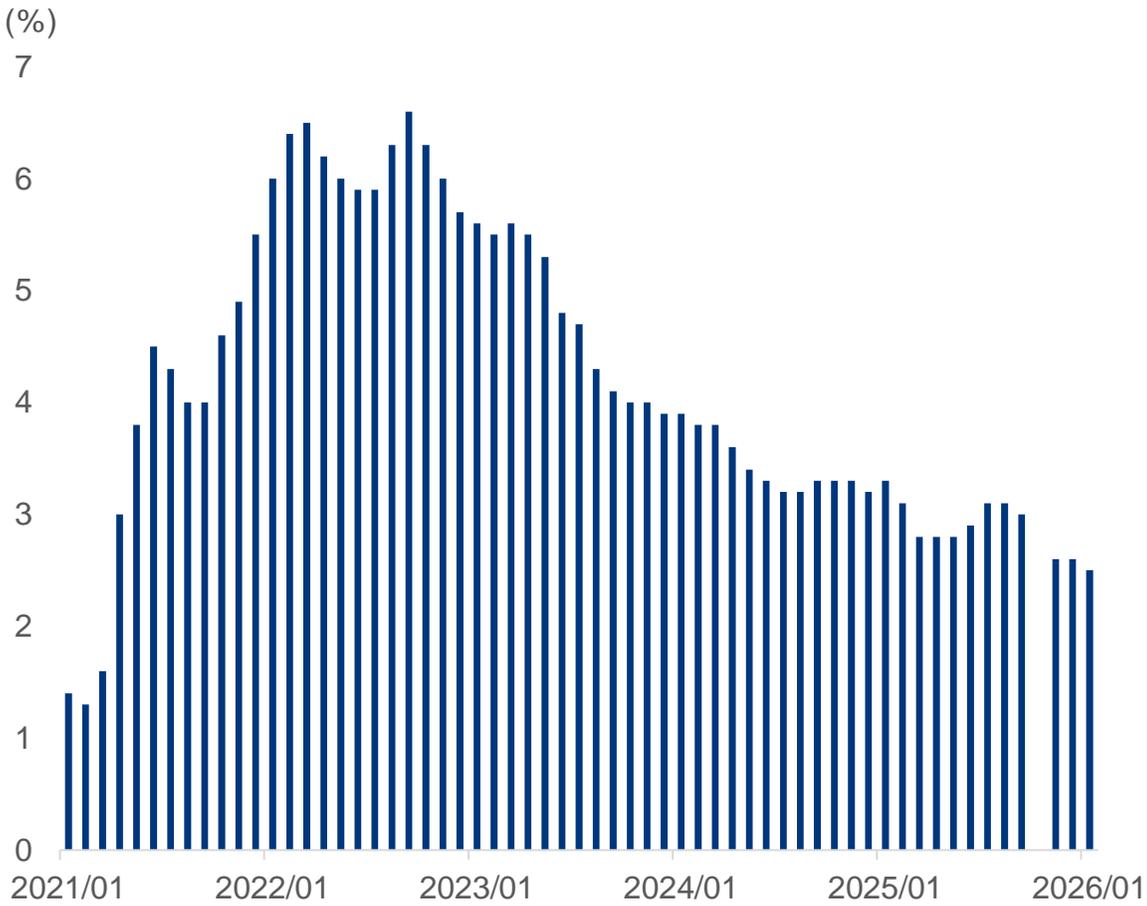


Source: Bloomberg, KGI

# US Core Inflation vs Oil Price

CPI Will Be Impacted if Oil Price Is Sustained at High Level Due to a Pro-Longed Disruption to Hormuz

### US Core CPI Index YoY



### Crude Oil WTI



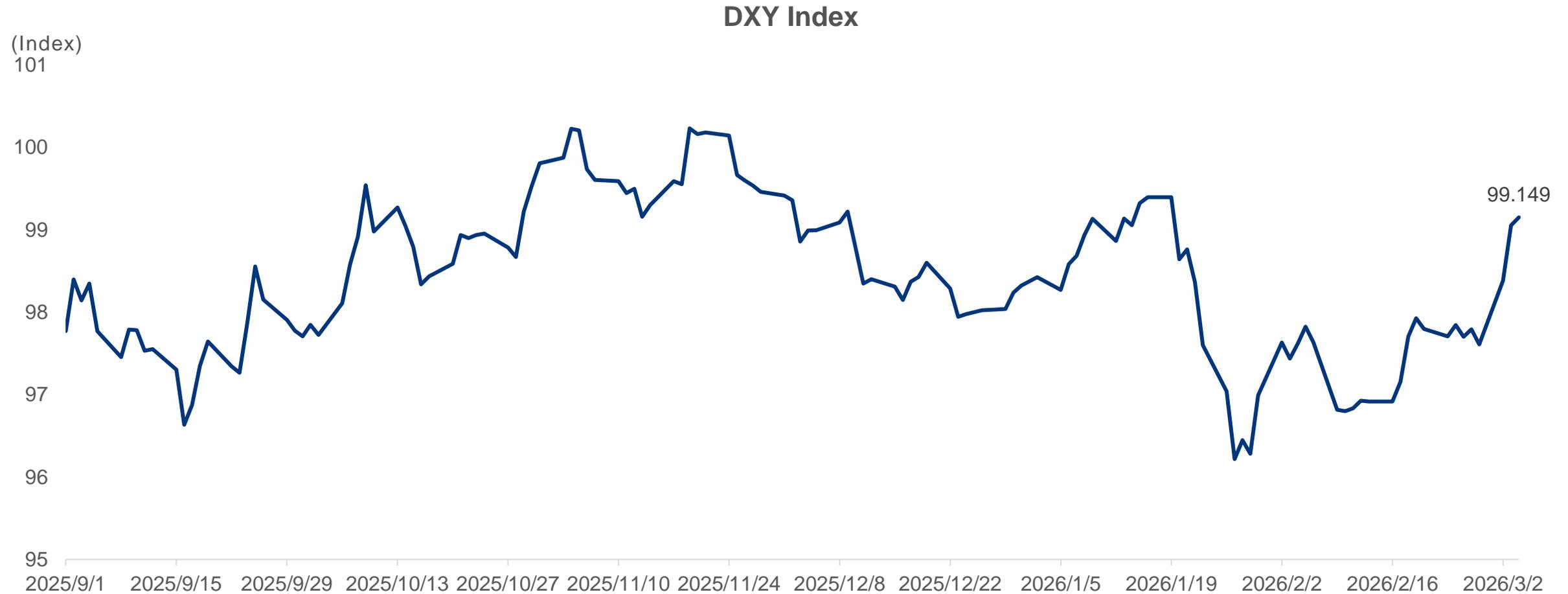
Source: Bloomberg, KGI

# The Market Will Price in the Worse-Case Then Ask Questions Later

## The US Interest Rate Move Is Not a One-Way Street on the Way Down

- The most recent Federal Open Market Committee (FOMC) minutes, released on February 18, 2026, from the January 27-28 meeting, include comments indicating flexibility in future rate decisions. Several participants noted that further downward adjustments would likely be appropriate if inflation declines as expected, particularly with diminishing tariff effects on core goods prices around mid-year. However, several others supported describing future decisions as two-sided, acknowledging that upward adjustments could be warranted if inflation persists above the 2% target. Almost all agreed on a current pause to assess data, with policy remaining data-dependent on inflation trends, labour market stability (e.g., unemployment at 4.4%), and economic growth.
- The **Middle East war could be** the trigger for a sustained period of high oil price, **inducing further inflationary pressure in the US economy**.
- Whether high oil price is sustainable or not depends on how long the US-Iran war will last. While the development of the US-Iran war change by the hours, the market would probably price-in the worse at this phase when uncertainty remains high.
- What is changing? From a consensual expectation that the US rates is a one-way street on the way down to having a chance that interest cuts may be less or even reversing its trend.

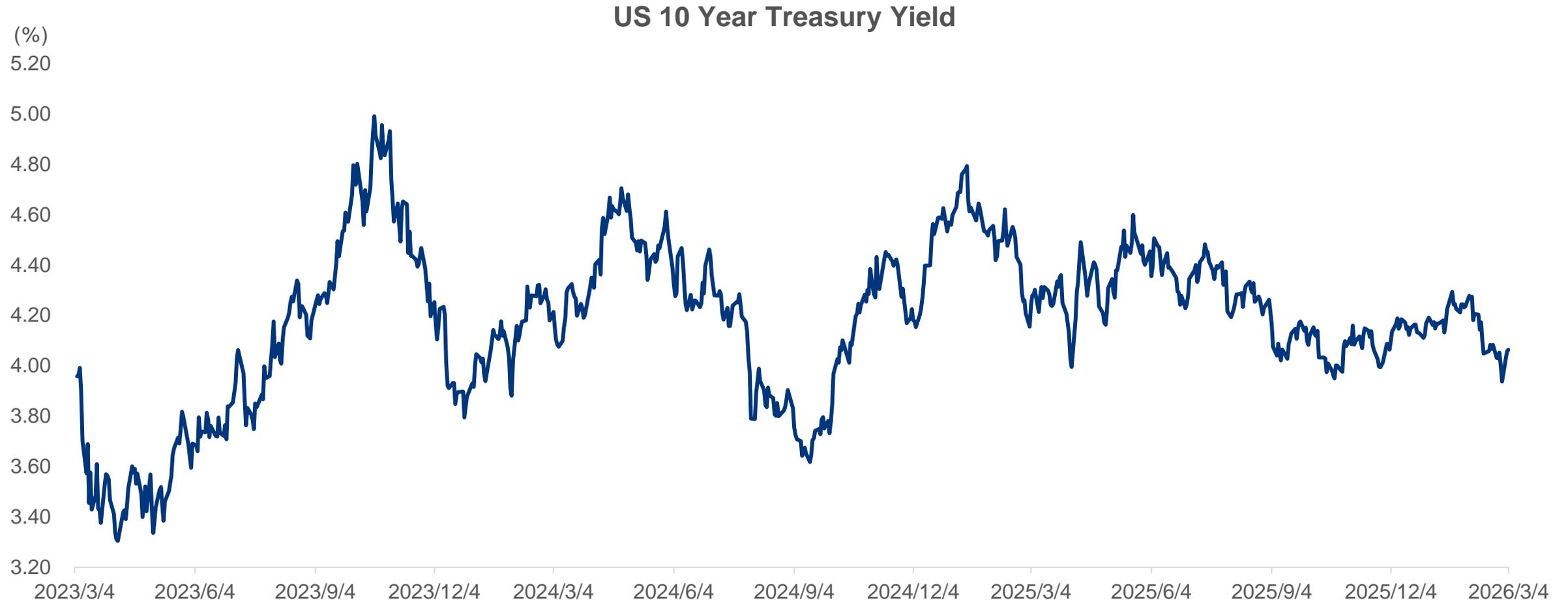
# The Rebound of the US Dollar – Is It a Vote of Confidence? Or Simply Reflecting That Interest Rate Will Not Be Cut as Much as Anticipated?



Source: Bloomberg, KGI

# The US 10-Years Is Fallen to the Low-End of Its Trading Range

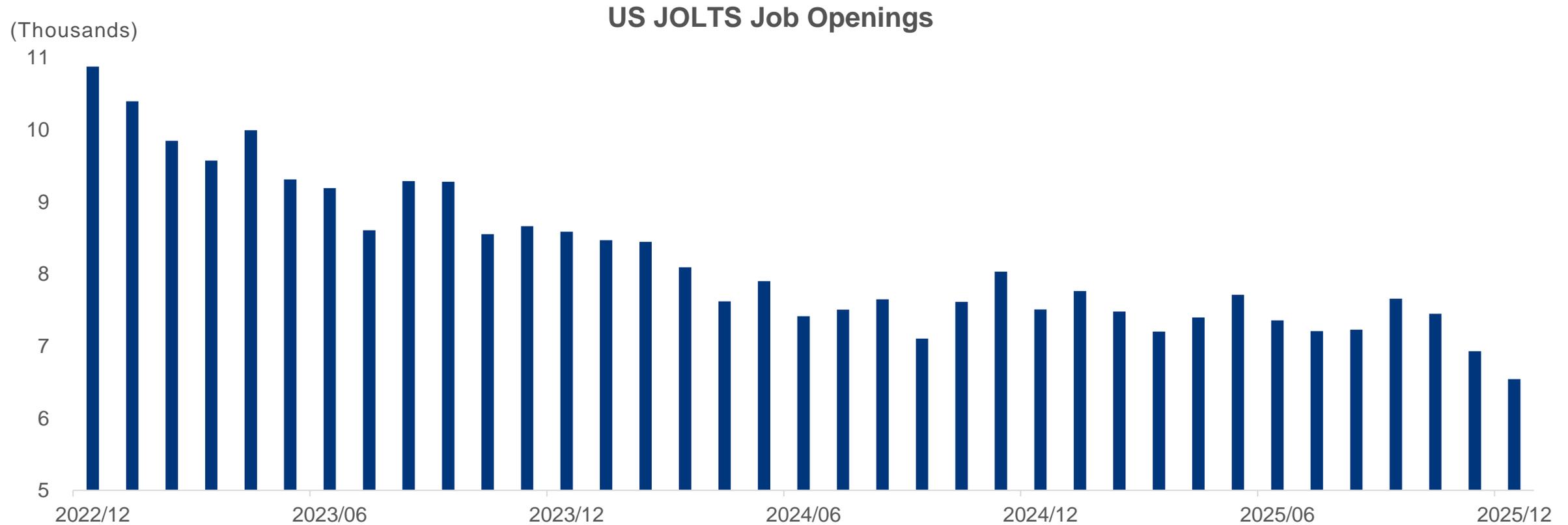
## Is It the Harbinger for Slower Growth?



Source: Bloomberg, KGI

# This Resonate Well With the Slowing Us Job Market

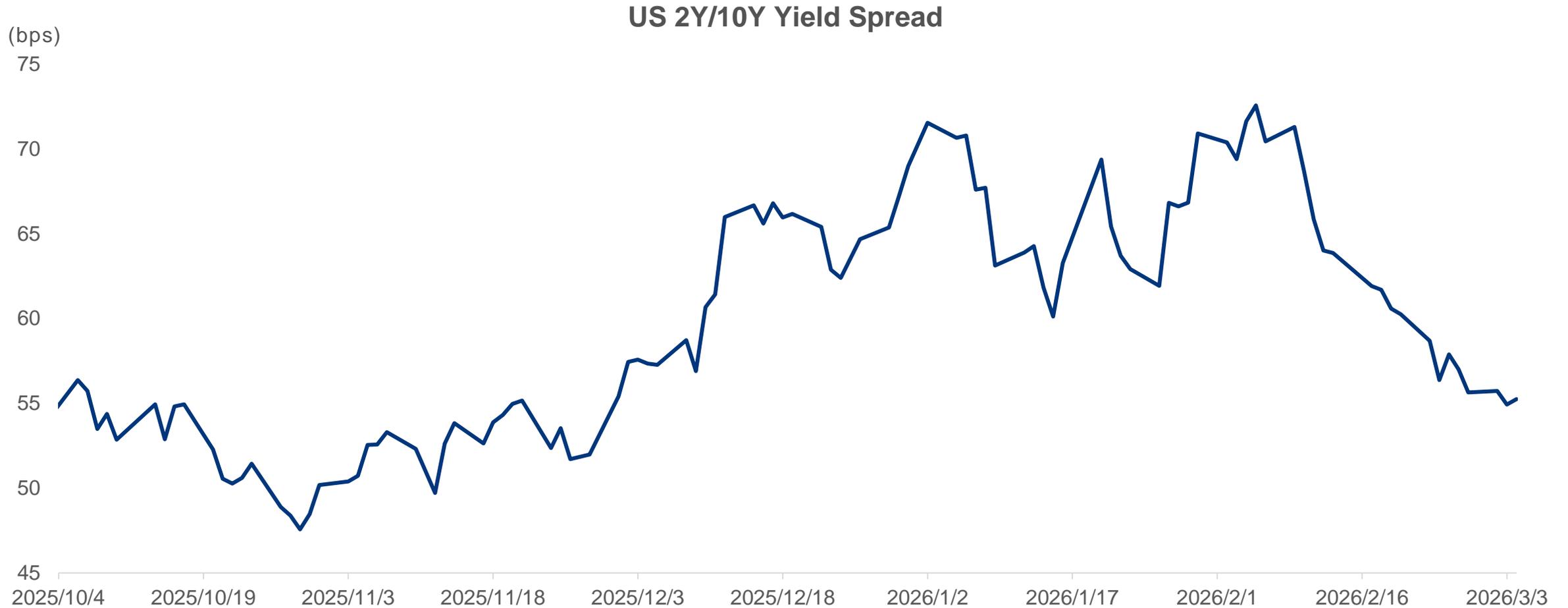
Stagflation is an economic condition characterized by a combination of stagnant or slow economic growth (stagnation), high inflation, and often high unemployment.



Source: Bloomberg, KGI

# Yield Curve Has Been Flattening Since Early Feb

**This Is Not Our Base-Case. Be Prepared the for the Oil Supply to Suffer a Prolonged Disruption**



Source: Bloomberg, KGI

# Investment Strategies

- **Risk-off.** As and when the market starts to doubt the path of interest rate movements, investors are likely turn to a risk-off mode. Fund flow is likely to turn defensive and value-oriented.
- **IG corporate debts** are not cheap but they **still offer relative value** as far as balance sheet strength is concerned **versus the US government's debt.**
- We expect the earnings momentum of the broader index, e.g. **S&P 493 and Dow Jones**, to start attracting more investors' interests.
- We will manage the Fixed income **duration** conservatively at the **5-10 years range** to account for any unexpected change in the yield curve.
- Given the stronger than expected inflation at the moment, we are expecting the **US dollar to regain some lost ground in the short term.**
- **Diversification continues. Focusing on Japan and Hong Kong/China.** The regaining of pricing power is outweighing any potential increase in funding cost in Japan. We are also focusing on the discretionary consumption, banking and financials, and the new economy sector in China.

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